

# Co-operative Federation of Victoria Ltd

## The Individualistic and Mutualistic Consumer

The Co-operative Federation of Victoria Ltd is the peak body for co-operatives in Victoria. Co-operative enterprises are based on a distinct set of values and principles.

### Co-operative Values and Principles

Co-operatives are unique businesses that are based on explicit values and principles. These are articulated in the International Co-operative Alliance's Statement on the Co-operative Identity adopted in 1995.

#### Definition

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.

#### Values

Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

#### Principles

The cooperative principles are guidelines by which cooperatives put their values into practice.

### **1st Principle: Voluntary and Open Membership**

Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

### **2<sup>nd</sup> Principle: Democratic Member Control**

Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (one member, one vote) and cooperatives at other levels are also organised in a democratic manner.

### **3<sup>rd</sup> Principle: Member Economic Participation**

Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

### **4<sup>th</sup> Principle: Autonomy and Independence**

Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

### **5<sup>th</sup> Principle: Education, Training and Information**

Cooperatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their cooperatives. They inform the general public – particularly young people and opinion leaders – about the nature and benefits of cooperation.

### **6<sup>th</sup> Principle: Cooperation among Cooperatives**

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

### **7<sup>th</sup> Principle: Concern for Community**

Cooperatives work for the sustainable development of their communities through policies approved by their members.

The ICA is the international non-government organisation which unites, represents and services co-operatives worldwide. It was established in London, UK, in 1898. It has more than 250 member organisations from over 100 countries and represents more than 760 million individuals.

Recent activities and achievements of the Co-operative Federation of Victoria Ltd have included:

- Published the Co-opAdvantage Developing Directors of Co-operatives Kit.
- Published What is a co-operative?
- Published Why do co-operatives fail as co-operatives?
- Published The Co-operative Formation Decision.
- Continuing a partnership with Monash University Agribusiness for the annual Agribusiness Co-operative Directors Seminar.
- Developing a co-operation web site under the DotCoop Community Name Program: <http://www.australia.coop>
- Continuing an energy alliance with Co-operative Energy Ltd.
- Published The Co-op Start-Up Manual.
- Organising a Marketing Our Co-operative Advantage Workshop at Warrnambool.

### **Co-operation in Australia**

A new report released by ACCORD by Wickremarachchi, Jayo and Passey, Andrew State of the Sector: New South Wales Co-operatives 1990-2000, ACCORD, June 2003 This report State of the Sector: New South Wales Co-operatives 1990-2000 is compelling because it meets a critical need for robust statistical information about co-operatives. The report provides this overview of co-operatives in NSW inter alia. In the middle of 2000 there were 787 active co-operatives in NSW and eight under administration. The analysis is based on 676 co-operatives who submitted annual returns for 1999-2000. The report covers co-operatives registered under NSW state co-operative legislation. It does not include, therefore, credit unions, building societies and friendly societies:

- More than three quarters have an annual turnover of less than A\$1 million.
- Four percent of co-operatives account for 72% of total turnover in the sector.
- Current assets of over A\$1 billion.
- 1.29 million members
- Approximately 13,500 employees.
- An annual turnover of A\$4.4 billion.

The focus of this report is co-operatives in NSW but there is some useful Australia-wide information. It is noted that the number of co-operatives under separate co-operative acts in the different States and Territories was more than 2,350 in 2000. Of these, 37% were in NSW and 44% in Victoria.

The focus of this report is co-operatives in NSW but there is some useful Australia-wide information. It is noted that the number of co-operatives under separate co-operative acts in the different States and Territories was more than 2,350 in 2000. Of these, 37% were in NSW and 44% in Victoria. Implicit to the work of the Taskforce is the notion of facilitation of a perfect market – the ideal market in which buyers and sellers are both numerous and well informed and are able to buy and sell any desired quantity of products or services without impacting on the market price.

Throughout history there have been two basic, not necessarily mutually exclusive, approaches: The political organization and protection of consumers through legislation and regulation. The economic organization of consumers through aggregation. The Australian Government's Consumer and Financial Literacy Taskforce discussion paper tends to focus on the political approach.

As a discussion paper by an Australian Government Taskforce it is disappointing because it ignores the ILO's R193 Promotion of Co-operatives Recommendation, 2002. As a member of the ILO, Australia has an obligation to ensure that decision-making processes include consideration of the co-operative option. The Taskforce aims to create smarter consumers and responsible businesses: "This is why the Taskforce proposes a pincer approach – improving consumer and financial literacy while at the same time, improving business practices. Smarter consumers drive better choices in the market while responsible businesses drive longer term profits by building trust with consumers. This is clearly a good outcome for both businesses and consumers."

The Taskforce hopes for a cultural shift: "The Taskforce believes that consumer and financial literacy needs to be embedded in the Australian culture in the same way that Australians know how to 'Slip, Slop, Slap' when going in the sun or wear a seatbelt while driving. However, these cultural shifts take time and require concerted effort from information providers in pushing strong and consistent messages." In advocating a cultural shift, however, the Taskforce does not recognise that the culture of organisations differs and that there is, for example, a substantial difference between the purpose, structure and governance of co-operatives and investor-owned companies.

However, the increase in choice and prosperity has also seen an increase in the complexity of products as more and more providers try to tailor their products to the varying needs of today's consumer. The wide range of choice available has also led to more aggressive marketing practices, as companies try harder and harder to break through the 'clutter' of competing advertising messages.

Thus we find consumers locked into long term contracts on the basis of an attractive opening offer (for example, a 'free' mobile phone), consumers who are binging on credit in order to satisfy their lifestyle aspirations (often marketed to them by companies), and consumers who are investing in get-rich-quick schemes that are doomed for failure.

As a result of some of these practices, Australians have demanded tougher regulatory regimes to protect their investments, safeguard them from unscrupulous operators and promote competition. This too, has resulted in an increase in complexity as legislation has increased to keep pace with societal changes.

The Taskforce believes that the ultimate solution is improved consumer competence: “Consumers need to catch up. As a nation, we need to be better skilled in negotiating transactions and in managing our money. A number of reports over recent years have also highlighted the need to improve Australian consumer and financial competencies.” Embedded within this assumption, however, is improving the competence of individual consumers. But, there are two dimensions to the improving the competence of individual consumers. Individualistic – improving the competence of the consumer acting as an individual in the market. Mutualistic – improving the competence of individuals working together in the market. An example of mutual action is in the energy market where consumers work together to achieve cost and service benefits that they cannot achieve as individual consumers. This submission includes an analysis by Graeme Charles of the Our Energy aggregation initiative.

## **Consumer Behaviour Model**

The Taskforce proposes a Consumer Behaviour Model. The Model looks at things from the consumer’s perspective and shows how external events, socio-economic background, personal characteristics, skill levels and choice of information can all shape the way decisions are made.

The Model is a synthesis of all of the best approaches to these problems drawn from a wide range of disciplines.

It is the Taskforce’s hope that this model can be developed and tested in a collaborative way across all sectors. This would include incorporating relevant data streams such as research on skill levels (for example, literacy and numeracy levels), complaint data (to indicate both levels of detriment and access to redress services), attitudinal research (such as the ANZ Survey) and relevant socio-economic data.

In this way, the Model can be measured and used by information providers to determine priority areas and the effectiveness of current programs.

The Taskforce does implicitly recognize, however, the isolation of the individual consumer: “Consumer behaviour does not occur in a vacuum. Economic, regulatory, cultural and political factors shape the external environment in which we make our choices.

This often means that individual consumers are unable to control the direction of their external environment. Nevertheless, the principles of market forces and of political representation show that while one consumer may not be able to affect change, several consumers can. That is not to say that certain consumers may not be able to influence wider change through political or social action, but for most, it means accepting and dealing with the economic, cultural and political environment that is dealt to us.”

The analytical emphasis, however, tends to be on the political power of organized consumers – rather than their economic power through aggregation.

The Taskforce is correct in asserting: “It is therefore the Taskforce’s conclusion that Australia is lacking both an effective framework for understanding consumer and financial literacy and an effective structure for improving information provision across sectors.” This problem is aggravated, however, by the Taskforce’s neglect of economic power and how through aggregation individual consumers resolve the challenge of asymmetrical information.

To solve the first part of this problem, the Taskforce proposes that the Consumer Behaviour Model be developed to serve as a framework for improving consumer and financial literacy. It is proposed that this development occur in a collaborative way across sectors in order for it to be properly ‘owned’ and supported by information providers.

This poses the problem of who would actually maintain the model or help facilitate this process. There is also the remaining problem of how cross-sectoral cooperation could be facilitated without any national structures or coordinating bodies.

The body would be a central location where disparate information could be brought together for access by consumers, intermediaries and providers alike through functions such as a clearinghouse website (where users could search for current information available on a topic – for example, everything available on superannuation).

It would also conduct ongoing research of consumer needs and the effectiveness of current information provision in meeting those needs. In economic terms, it would be a home for ‘demand’ side research on key consumer issues where education solutions are being targeted. This research would ensure effectiveness as well as efficiency (where it identifies programs that don’t work or those which duplicate other work). This would see it develop as a repository for best practice advice on how to target different groups within the community.

Finally, it would also have a focus on schools education and work with educators to raise the level of consumer and financial education taught in schools.

The purpose of the Consumer Behaviour Model is to act as a tool for building an effective and efficient match between the information program and the consumer problem. It is also a tool for determining whether information alone is sufficient in solving this need.

The role of the proposed coordinating body would be to facilitate this matching process. This would be done through an appreciation of the myriad of factors that lead to consumers making decisions in the marketplace. It would also be done in partnership with the diverse range of information providers who interact with consumers.

The harnessing of the Consumer Behaviour Model to a central coordinating body also recognises the need to approach these issues in a way which builds knowledge and effectiveness over time. The body gives the Model a home where it can be rigorously developed and measured in action across all sectors. It allows for the development of best practice approaches to key consumer issues through cross-sectoral input and multi

disciplinary approaches. It is a home for building knowledge and turning that knowledge into action.

The notion of the Consumer Behaviour Model, therefore, relies on an implicit assumption of a perfect market with buyers and sellers having equal bargaining power. The Taskforce does concede, however: " Of course there may well be other strategies that could be more effective in addressing this particular consumer problem. The example above however is sufficient to illustrate that simply providing more information is not always the most effective solution to addressing consumer problems. Strategies need to be aimed at the right target audience (not necessarily the consumer, but perhaps also advisors, sales people, and so on), be delivered via appropriate channels, clearly communicate the intended message and be timely. " The problem is that the Taskforce focus is on better information and even that is limited by the focus on individual consumers acting in isolation.

David Griffiths  
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# **Retailer inertia with respect to rural aggregation: the OUR ENERGY experience**

GRAEME CHARLES

## **Acknowledgment:**

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The author would like to thank CUAC for providing OUR ENERGY Inc. with an opportunity to document their experience in the newly emerging electricity market-place.

It also provides an opportunity for the author to acknowledge the significant level of support given to Our Energy Inc. by the WAW Credit Union Co-operative Ltd.

## **Executive Summary:**

The formation of OUR ENERGY Inc. (OE) in February, 2002 was preceded by several years of work by Co-operative Energy Ltd. (CE), which had itself been formed in 1994 during the earliest days of the privatisation of Victoria's electricity industry.

CE was formed initially to create interest in the potential role that co-operatives could fulfill within a privatised electricity industry. The significant role of electric co-operatives, particularly in rural USA, chiefly informed this initiative. Generally speaking, most rural Americans receive their electricity supply via member-owned and controlled co-operatives. In fact it was the process of developing electric co-operatives commencing in the 1930's that resulted in rural Americans gaining access to electricity supply. Prior to this development their chances of ever being able to enjoy electricity supply did not look at all promising, as the United States Government had, unsuccessfully, tried all sorts of inducements to encourage investor-owned electricity businesses to "connect" rural America.

In any truly free market small consumers inevitably are at a disadvantage when it comes to negotiating with suppliers of services. CE firmly believed, and still does, that successful aggregation of small consumers was the one self-help tool available.

In 1999 CE was engaged by a group of North East Victorian councils to prepare a report on the likely outcomes of successful aggregation of electricity consumers across that region. That report demonstrated a significant positive economic effect for the region if enough consumers could be aggregated and as a result of that, electricity tariff reductions of as little as 5% could be successfully negotiated.



Whilst remaining supportive, the councils were reluctant to become directly involved in the formation of an energy aggregation vehicle, mainly because of the provision of certain sections of the Local Government Act. However CE had in the meantime held discussions with WAW Credit Union which has a member and branch network across NE Victoria. They agreed to support the initiative to provide a vehicle through which electricity consumers could aggregate their electricity purchasing and negotiate as a group with retailers. The various councils contributed a total of \$19,000 and the WAW Credit Union provided in-kind support to OE estimated to at least having matched the councils contribution.

Graeme Charles, Chairman of CE was engaged on a part-time basis to project manager the aggregation effort. Once OE was incorporated and launched in February 2002, consumers were invited to complete a form authorising OE to negotiate on their behalf with retailers. On the basis of earlier informal discussions with retailers, it was decided that OE's target would be 5000 signings. If the target were not reached within a three to six month period, the future of OE would be reviewed. By August 2002 the aggregation had grown to include some 465 businesses, 300 farms and 2800 residential consumers. To these numbers could be added the loads of the various councils.

In September 2002 a formal Request for Proposals (RFP), was sent to all electricity retailers licenced to operate in Victoria

No response that complied with, or even addressed the majority of issues contained in the RFP was received. Numerous attempts to generate serious negotiation with retailers all failed. No retailer was prepared to discuss our request and in essence we were after many months of trying, reluctantly forced to conclude that we were "flogging a dead horse".

As a result of this monumental display of retailer inertia, OE can only offer its own suggestions as to why having aggregated thousands of consumers, it could not elicit any offers from retailers. Probably the most significant comment to make is that the sort of initiative undertaken by OE has not been a true "aggregation". True aggregation can only occur when an aggregator can negotiate on behalf of its constituents whilst being in a position to guarantee that those constituents will take up the resultant negotiated outcome. This is not the case currently and is a matter that requires the serious and urgent attention of industry regulators and consumer representatives.

To what extent the role of regulators in the market place e.g. price-capping, Net System Load Profiling is influencing retailer responses to aggregation efforts OE can only ponder. In the meantime would-be aggregators are caught in "no-mans land", operating within a system that is neither a tightly regulated monopoly, in which case there would be no need for aggregation, nor a true open market-place. If any future aggregation efforts are to be successful, electric industry regulations and legislation will have to include remedies that address the many existing aggregation barriers.

## **Section 1. Background to, and outline of stages in developing and establishing OUR ENERGY Inc. (including milestone dates.)**

### **(i) Why Aggregate?**

Aggregation, or power in numbers, is a tool that enables consumers, particularly those that don't consume large quantities of electricity, to demand lower prices and perhaps better services from their electricity retailer.

An entity that places consumers into a buying group to purchase electricity can be described as an "aggregator".

### **(ii) Why Aggregate in North East Victoria? Why involve Local Government?**

Background: Co-operative Energy Ltd. (CE) was formed in 1994 to promote

co-operative involvement in the newly deregulated electricity industry. It had a particular focus on small consumers and rural communities. CE was aware of the hugely significant role fulfilled by electric co-operatives in delivering electricity to rural Americans.

CE foundation chairman Graeme Charles, was resident in North East Victoria.

In the latter part of 1998, with the date for Full Retail Contestability (FRC) set-down for January 2001, CE began a series of approaches to local government across NE Victoria. CE suggested that they (local government) could play an important facilitating role in assisting their constituents to aggregate in order to effectively compete in the new electricity marketplace. The suggested rationale being firstly, as an economic development exercise, and secondly, as a service to residents.

Eventually, in March 1999, CE presented a formal proposal re the formation of a North East Victorian Energy Users Co-operative to the Cities of Wodonga, Wangaratta, and Delatite Shire Council.. The cost of this proposal was \$24,000. CE had by this time received an offer of \$12,000 funding to assist the establishment of an energy purchasing co-operative in North East Victoria via the Uniting Church, Hotham Parish Mission. CE offered to use the \$12,000 from the Uniting Church, Hotham Parish Mission to match a similar contribution from the Councils.

In May 1999, CE and the Councils entered into a Heads of Agreement (see Attachment 1) whereby CE was engaged as consultant to undertake Phase One of the development of a North East Energy Purchasing Group. (The participating Councils were subsequently joined in the Project by the Alpine, Indigo and Towong Shires.)

The tasks set out in the Phase One Heads of Agreement were:

1. Investigate and identify options for structuring the Energy Users body.

2. Development of appropriate membership recruitment campaigns:
  - Domestic customers
  - Small business (less than 160 mWh per annum consumption)
  - Large customers
3. Implementation of recruitment campaign for larger customers.
4. Conduct preliminary discussions with potential suppliers. Consider the two most obvious options.

Option 1.

Enter into an early agreement with a preferred supplier, who would have a vested interest in assisting with the recruitment of members.

Option 2.

Consolidate the membership before entering into any firm arrangements with suppliers.

Identify likely financial rewards on offer from potential suppliers.

5. Develop strategic alliances that could strengthen the Project. E.g. Uniting Church, local Credit Union, Other local government and Statutory Authorities.
6. Advocacy and lobbying on behalf of members.
7. Explore possible sources of external funding for the Project.
8. Monthly meetings with Reference Group overseeing the Project.

Outcomes of the Heads Of Agreement:

The presentation of a Report and Phase Two options paper.

July 1999 – Phase One –Stage One Report to Councils:

Included

- A. Financial Estimates and Modelling.
- B. Potential Price Reductions/Savings Achievable through Aggregation.
- C. Potential Consumer Membership of the Energy Purchasing Organisation.

D. Likely Costs of the Project.

E. Potential Sources of Funding re Estimated Costs.

August 1999: Report to North East Victorian Councils on Recommended Structure for an Energy Users Purchasing Organisation.

February 2000: Regional Energy Options prepared for North East Victoria Energy Purchasing Project.

May 2000: Discussions commenced with the WAW Credit Union which had a branch network that extended across the target region of the Project and into the Albury, NSW region of New South Wales. WAW membership itself was around 20,000 and Graeme Charles had identified WAW as being potentially crucial to the success or otherwise of the Project.

July 2000: North East Energy Purchasing Project – Phase One Final Report to Councils.

Recommendation: That participating Councils together with identified non-local government organisations proceed with Phase 2 the formation of an energy-users co-operative.

The co-operative would not, certainly initially, become involved itself in either purchasing or selling electricity.

October 2000: North East Energy Purchasing Project – Phase Two Proposal.

Following a meeting with some of the Councils in September 2000, CE agreed to undertake the preliminary work required for the incorporation of a co-operative and to provide an Action Plan by the end of October. It was agreed at that meeting that something like \$1000 capital per founding member together with the balance of funds remaining from Phase One ought to be sufficient to move the co-operative forward beyond its formation stage for a period of between three to six months. It was envisaged that the founding members would most likely be CE, the five participating NE Vic councils and the WAW Credit Union.

An Action Plan was presented early November 2000. The plan proposed amongst other things that a Co-operative Formation Meeting would be held in December 2000.

December 2000: The Co-operative Formation Meeting.

This meeting was held on 8<sup>th</sup> December 2000 at the Indigo Shire Offices and attended by representatives from three of the five participating councils, WAW Credit Union and CE.

It soon became apparent that most councils were reluctant to become members of the proposed co-operative. The provisions of Sec.193 of the Local Government Act 1989 were put forward as presenting a major hurdle that none of them was interested in attempting to jump for the purpose of this exercise.

Subsequently the outcome of the meeting was:

- It was unanimously agreed that Councils would prefer not to become members of a newly formed energy purchasing co-operative.
- It was further agreed that WAW Credit Union would proceed with the project and that councils would continue to support its development in a number of ways.
- Councils would place their energy purchasing with the WAW sponsored co-operative. Including currently contestable sites as they become available, and all other sites as they become contestable.
- Councils will when and where appropriate, publicly support the co-operative, and announce their commitment to the above.
- Councils will make their normal ratepayer communication channels available to the co-operative.
- The balance of funds from Phase one will be transferred to the WAW Credit Union as “sponsor” of Phase two, and each council would contribute an additional \$1000 to advance the Project.
- A percentage of any earnings derived by the co-operative would be allocated to some form of community development trust, which councils could be involved in as trustees.

By the end of April 2001 all participating councils with the exception of the Delatite Shire had formally confirmed their continued support for the Project as outlined above. Delatite Shire Council advised that they had been approached by their local credit union, North East Credit Union proposing the development of a similar energy purchasing co-operative in the Shires of Delatite, Murrundindi and Strathbogie. As a result they could not commit themselves to moving forward with the North East Energy Purchasing Project at that time. Delatite Shire never rejoined the Project and nothing ever eventuated from the approach that had been made by the North East Credit Union.

Full Retail Contestability Deferred:

The Victorian Government decided that FRC for sub 160mWh customers would not occur as originally planned in January 2001. This created a difficult environment for the NE Vic Energy Purchasing Project. The momentum that had finally been created in the latter part of 2000 now became impossible to sustain as interest in FRC waned.

### **(iii) Aggregation Commences in North East Victoria: February, 2002**

As indicated earlier the continued uncertainty surrounding the final stage of FRC became a major problem for the North East Energy Purchasing Project. To publicly launch the aggregation effort against such an uncertain background (there were even doubts being expressed within the electricity industry that FRC for all consumers would ever eventuate) would have been extremely difficult. When it became clear that FRC would commence early

in 2002, WAW appointed Graeme Charles to project manage the aggregation effort. For reasons of expediency it was decided to form an incorporated association to act as the aggregation vehicle. (An incorporated association can if it chooses, convert to a co-operative structure relatively easily.) Thus OUR ENERGY Inc. was registered in February 2002 and publicly launched by the Federal Member for Indi, the Hon. Sophie Panopoulos MHR, on February 28<sup>th</sup>.

WAW Credit Union positioned OE under their Community Link program and their General Manager Peter Challis and Marketing Manager Emma Ashton together with Graeme Charles effectively became the OE management team. Financial contributions were sought from the five local councils who had previously supported the project as well as the two councils in New South Wales covered by the WAW footprint, Albury City and Hume Shire. WAW itself would not make a direct financial contribution to OE, instead it would provide significant and necessary in-kind support. It was recognised that the further level of financial support that could be leveraged from local government was not substantial. Consequently the three larger councils Albury, Wangaratta and Wodonga were asked to contribute \$3000 each and the remaining four, Alpine, Hume, Indigo and Towong were asked to contribute \$2000.

All councils complied with the request and their contributions together with the balance still remaining from Phase One of the Project resulted in an initial operating budget for OE of \$19,000.

Project Manager Graeme Charles was aware of the overwhelming evidence, particularly from the USA, that demonstrated the lack of success of so-called “weak” aggregation efforts. Hence it was decided that given its modest budget OE’s first aim would be to aggregate the equivalent of 5000 individual residential consumers. If the target couldn’t be achieved within a reasonable time, something like 3-6 months, the future of the aggregation effort would be reconsidered.

\$12,000 was allocated to project management fees and Emma Ashton, WAW’s Marketing Manager developed a marketing campaign utilising the balance of the initial funds. In addition to making staff time for OE, WAW was providing OE with office space and covering overheads such as telephone. OE produced a brochure (see attachment 2) which explained the rationale behind OE. The brochure included a tear-off authorisation page which individuals could use to provide their details and return to OE. Unfortunately a significant number of authorisations failed to include all of the data requested. For example, current electricity tariff description and quarterly consumption in kWh. This has been a problem.

The brochures were distributed through WAW branches and offices of the participating councils. The WAW Marketing Manager put together a media and marketing program that attempted to gain as much free media coverage for OE as possible. The media and marketing report may be seen in detail as Attachment 3.

A number of key organisations and individuals across the target region were approached and invited to join OE. The general response to this invitation was disappointing. Discussions were also held with organisations outside the target region, who had at some stage expressed some interest in the project. These were the Warrnambool Co-operative Society Ltd., South West Credit Union Co-operative Ltd., and the Gippsland Herd Improvement Co-operative Ltd. Only one of these, Gippsland Herd Improvement Co-op., decided to join OE and become

involved in the aggregation effort. GHI targeted their members and others across their geographic region in East Gippsland.

Community information meetings were conducted at Beechworth, Myrtleford, Chiltern, Bright, Mount Beauty, Corryong, Tallangatta, Albury and Wodonga. These meetings consisted of a presentation outlining the rationale behind OE and the WAW Credit Union support for OE. Attendees were encouraged to ask questions and “sign on”. These meetings drew a combined attendance of approximately 300.

Over a period of six months the aggregation steadily grew. By the time the RFP was issued an analysis of the aggregation was as set out below.

Residential Consumers 2800

Small business                      465

Farms                                      284

Local Government                      6

Residential consumers in the TXU Distribution area are estimated to have an average annual consumption of 10,000 kWh. This is higher than their metropolitan counterparts because of the historical dependence on electric space and hot-water heating.

Not all consumers had provided consumption data but the aggregated load was estimated to be somewhere between 50 and 70 gigawatts per annum.

#### **(iv) Lessons for future would-be aggregators.**

Lesson 1. The task of individually signing on every potential customer requires a huge expense that is difficult to justify.

Asking people to “sign on” or “opt in” to something like aggregated energy purchasing is a massive task. They often appear to confuse the approach with their previous unhappy experiences with telephone resellers. People are by nature conservative and inclined to “sit on the fence” waiting to see if the concept will work. They don’t understand that by its very nature, aggregation requires their commitment up-front.

Lesson 2. Many people will “sign-on” but for various reasons find it more difficult to complete an authorisation in full. The resultant lack of consumption data creates difficulties further down the track. If eventually required, the cost factor associated with gathering the data from each person can be significant.

Lesson 3. “Weak” aggregation efforts just don’t work. “Weak” in this instance definitely includes reference to the regulatory framework. There are several barriers preventing successful aggregation within the existing Victorian regulatory framework. Not the least of which is the requirement for retailers to provide all participants in the aggregation with individual offers despite having reached an agreement with the aggregator.

## **Section 2. The Tenor of OE’s discussions with Retailers:**

### **(i) Background:**

It should be noted that Co-operative Energy Ltd. Chairman, Graeme Charles, who is also project manager for OE, has had considerable experience within the Victorian deregulated electricity market. Principally acting as a “broker” negotiating electricity contracts on behalf of contestable customers since 1997.

As a result of this activity, useful relationships with a number of retailers had been created. In the run up to FRC, discussions concerning the aggregation of small consumers were conducted with some of these retailers. It became obvious that retailers were not enthusiastic about aggregation. They all had had unsatisfactory experiences with attempted aggregations of the larger tranche of customers. Graeme Charles understood these misgivings, as a result of his own experience. He had put together several “aggregations” of larger customers. Generally it had been difficult to develop a sense of commitment from the customers being aggregated. More often than not they would use the offer received from a retailer via the aggregation, as a tool with which to conduct their own negotiations. The result being, retailers very quickly became wary of these so called “aggregations” and presumably priced their offers accordingly. The crucial element missing from the process was, and to a large degree still is, the inability of the aggregator to guarantee as far as one can, that the above scenario won’t be repeated. In other words, if you say you have 50 gigawatt hours of consumption to offer, will the majority of it materialise once an acceptable offer has been agreed to by the aggregator. Or will individuals use the offer thus received in order to generate one of their own.

### **(ii) Pre-RFP Discussions:**

Nevertheless, serious attempts were made with several retailers, prior to the issuing of the Request for Proposals, to conclude an arrangement that could be offered to the OE constituents. The rationale behind this approach was based on the premise that a retailer might be prepared to “break ranks” in order to secure a position with an aggregator that would stand them (the retailer) in good stead going forward.

This approach also gave OE more time to build the aggregation. However it eventually became obvious that no retailer was going to deliver the required outcome via this process.

These early discussions were held with the following retailers, TXU Retail, Energex Retail P/L. and Citipower. Some preliminary discussion was also conducted with Yallourn Energy. In the case of TXU, discussion re the possibility of forming a mutually beneficial relationship had actually been commenced by Co-operative Energy Ltd. in late 2000 and continued until



early 2002. It should be noted here that these discussions essentially pre-dated OE. TXU were more interested in engaging Co-operative Energy Ltd. as an energy broker rather than in developing a different style of relationship. In all cases the discussions eventually fizzled out.

(iii) The Request for Proposals: (see Attachment 4)

In September 2002 some six months after its launch, OE issued a Request for Proposals (RFP) to 10 licensed electricity retailers.

Retailers who received the RFP were:

TXU Australia Retail

Power Direct

Integral Energy

Aurora Energy

Energex Retail

Actew/AGL

Country Energy

AGL

Origin Energy Electricity

Energy Australia

(iv) Responses to RFP:

No formal response was received by the designated date.

No response or acknowledgment of any kind was received from Power Direct, Energex Retail, Actew/AGL, or Energy Australia.

Varying responses were eventually received from Country Energy, Origin Energy, TXU Retail, Integral Energy, Energy Australia, AGL, and Aurora Energy P/L. Of these, Energy Australia, Integral Energy and Aurora Energy P/L. advised that they were not presently involved in pursuing mass-market customers in Victoria. None of the responses could have been regarded as formally addressing the RFP in any sense. They were all received either by email or telephone call. Attempts to pursue the initial retailer responses with them, have been

fruitless. Country Energy was the only retailer that indicated an interest in entering into serious discussion with OE. At the time of writing this report these discussions have not resulted in a satisfactory outcome. As indicated above, none of the retailers responded to the RFP in a manner that OE could deem acceptable.

It is of interest here to note that the Australian Consumers Association reported in July 2003 that only four of the retailers licensed in Victoria and NSW had responded to their invitation to provide energy offers for four household scenarios in each state. All the other retailers declined to participate in the ACA survey.

(v) Analysis of the Responses:

No retailer was prepared to talk with OE in terms of making an offer for the aggregated load.

The only “offer” that eventuated was from Country Energy. CE indicated that they would need to price each < 160 mWh site individually, therefore requiring full consumption data for each site. In many cases this had not been supplied to OE when signing on. Their “offer” for >160 mWh sites was the same bundled pricing schedule that was available to any customer prepared to take the time to call them and ask for it. They did offer to pay OE a commission for each OE site eventually taking up the CE offer. OE had intended to rebate as much of the commission as possible to the consumer. Other aspects of the RFP, such as co-branding of bills, were not possible according to CE. CE also indicated that their systems would not allow them to generate a specific price for OE customers, which was the reason for OE being “offered” the generic prices for all TXU customers prepared to switch to CE. Of course the major problem for OE with the CE “offer” was that many customers missed out. They were and still are, better advised to remain on the TXU standing offer. This contradicts the very essence of aggregation, which aims to provide some benefit to all participants.

### **Section 3. Issues hampering successful aggregation outcomes:**

The “opt-in” aggregation model requires intense resources and community outreach, basically knocking on doors and asking each person to sign up. Many consumers don’t understand the new electricity supply choices, are apathetic, and don’t consider the potential benefits of aggregation to be significant on a personal level. They generally choose not to choose during the early years of deregulation.

It is difficult to negotiate with retailers in an environment that doesn’t allow the aggregator to offer up-front the approximate size of the group. Retailers are wary of aggregator’s claims re the group’s size. Their experience to date has been that at the end of the day the aggregation develops significant leakage of those having signed up. In other words the retailer doesn’t pick up as many new customers as they might have expected from the aggregation. The ESC has acknowledged that the requirements for customer consent to aggregated loads have never been formally addressed. At the same time they have said “It is possible that as the market develops, there will be a role for brokers to act on behalf of customers in entering into contracts with a retailer.” Perhaps it is now time to address this issue.

Price capping has been flagged by most retailers as a significant issue affecting their ability to offer competitive prices to <160mWh customers. This is particularly so with off-peak tariffs. Unfortunately, rural residential users tend to have off-peak electric hot water services, as reticulated gas supply has hitherto been unavailable to them. Price caps contradict the notion of an electricity market, and so long as they remain in place, successful aggregation outcomes are not likely.

Net System Load Profiling does not allow the settlement system to differentiate between separately metered peak and off-peak consumption. Second tier retailers appear to be disadvantaged under this regime. Generally the lack of pricing signals available to domestic and small business users is affecting the prices retailers are prepared to offer this tranche of customer. For example interval meters, which record consumption of electricity each half hour, would allow retailers to structure tariffs that more closely reflect the cost of purchasing power in the wholesale market. Access to interval meters would also allow all consumers to participate in load management arrangements that would attract the interest of retailers. These meters are not available to domestic and small business customers and presently there is no incentive to these users to self-manage their consumption pattern.

Size of aggregation may be an issue. OE was consistently reminded by various retailers, that their load representing something like the equivalent of 5000 households, was of little consequence in the overall scheme of things. For example, CE has 750,000 customers and on more than one occasion during the course of OE's discussions with them indicated that the number of customers OE was offering them was of little significance. At the same time OE could not help but get the feeling that CE wasn't really ready to handle a potential increase of thousands of new customers all at the same time.

## **Conclusion:**

Would-be aggregators appear to be caught in "no man's land". Operating within a system that is neither a tightly regulated monopoly (in which case there would be no need to aggregate) nor a truly open market. Aggregation is not a process that can be started and completed merely by flicking a switch. The decision they (aggregators) now need to make is whether, and how, they attempt to keep the aggregated group "alive" until such time as the electricity market rules and regulations change in a way that will ensure aggregation truly becomes an important and crucial consumer tool.

# **R193 Promotion of Cooperatives Recommendation, 2002**

## **The General Conference of the International Labour Organization,**

Having been convened at Geneva by the Governing Body of the International Labour Office, and having met in its 90th Session on 3 June 2002, and

Recognizing the importance of cooperatives in job creation, mobilizing resources, generating investment and their contribution to the economy, and

Recognizing that cooperatives in their various forms promote the fullest participation in the economic and social development of all people, and

Recognizing that globalization has created new and different pressures, problems, challenges and opportunities for cooperatives, and that stronger forms of human solidarity at national and international levels are required to facilitate a more equitable distribution of the benefits of globalization, and Noting the ILO Declaration on Fundamental Principles and Rights at Work, adopted by the International Labour Conference at its 86th Session (1998), and Noting the rights and principles embodied in international labour Conventions and Recommendations, in particular the Forced Labour Convention, 1930; the Freedom of Association and Protection of the Right to Organise Convention, 1948; the Right to Organise and Collective Bargaining Convention, 1949; the Equal Remuneration Convention, 1951; the Social Security (Minimum Standards) Convention, 1952; the Abolition of Forced Labour Convention, 1957; the Discrimination (Employment and Occupation) Convention, 1958; the Employment Policy Convention, 1964; the Minimum Age Convention, 1973; the Rural Workers' Organisations Convention and Recommendation, 1975; the Human Resources Development Convention and Recommendation, 1975; the Employment Policy (Supplementary Provisions) Recommendation, 1984; the Job Creation in Small and Medium-Sized Enterprises Recommendation, 1998; and the Worst Forms of Child Labour Convention, 1999, and

Recalling the principle embodied in the Declaration of Philadelphia that "labour is not a commodity", and

Recalling that the realization of decent work for workers everywhere is a primary objective of the International Labour Organization, and

Having decided upon the adoption of certain proposals with regard to the promotion of cooperatives, which is the fourth item on the agenda of the session, and

Having determined that these proposals shall take the form of a Recommendation;

adopts this twentieth day of June of the year two thousand and two the following Recommendation, which may be cited as the Promotion of Cooperatives Recommendation, 2002.

## I. SCOPE, DEFINITION AND OBJECTIVES

1. It is recognized that cooperatives operate in all sectors of the economy. This Recommendation applies to all types and forms of cooperatives.

2. For the purposes of this Recommendation, the term "cooperative" means an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.

3. The promotion and strengthening of the identity of cooperatives should be encouraged on the basis of:

(a) cooperative values of self-help, self-responsibility, democracy, equality, equity and solidarity; as well as ethical values of honesty, openness, social responsibility and caring for others; and

(b) cooperative principles as developed by the international cooperative movement and as referred to in the Annex hereto. These principles are: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training and information; cooperation among cooperatives; and concern for community.

4. Measures should be adopted to promote the potential of cooperatives in all countries, irrespective of their level of development, in order to assist them and their membership to:

(a) create and develop income-generating activities and sustainable decent employment;

(b) develop human resource capacities and knowledge of the values, advantages and benefits of the cooperative movement through education and training;

(c) develop their business potential, including entrepreneurial and managerial capacities;

(d) strengthen their competitiveness as well as gain access to markets and to institutional finance;

(e) increase savings and investment;

(f) improve social and economic well-being, taking into account the need to eliminate all forms of discrimination;

(g) contribute to sustainable human development; and

(h) establish and expand a viable and dynamic distinctive sector of the economy, which includes cooperatives, that responds to the social and economic needs of the community.

5. The adoption of special measures should be encouraged to enable cooperatives, as enterprises and organizations inspired by solidarity, to respond to their members' needs and the needs of society, including those of disadvantaged groups in order to achieve their social inclusion.

## II. POLICY FRAMEWORK AND ROLE OF GOVERNMENTS

6. A balanced society necessitates the existence of strong public and private sectors, as well as a strong cooperative, mutual and the other social and non-governmental sector. It is in this context that Governments should provide a supportive policy and legal framework consistent with the nature and function of cooperatives and guided by the cooperative values and principles set out in Paragraph 3, which would:

(a) establish an institutional framework with the purpose of allowing for the registration of cooperatives in as rapid, simple, affordable and efficient a manner as possible;

(b) promote policies aimed at allowing the creation of appropriate reserves, part of which at least could be indivisible, and solidarity funds within cooperatives;

(c) provide for the adoption of measures for the oversight of cooperatives, on terms appropriate to their nature and functions, which respect their autonomy, and are in accordance with national law and practice, and which are no less favourable than those applicable to other forms of enterprise and social organization;

(d) facilitate the membership of cooperatives in cooperative structures responding to the needs of cooperative members; and

(e) encourage the development of cooperatives as autonomous and self-managed enterprises, particularly in areas where cooperatives have an important role to play or provide services that are not otherwise provided.

7. (1) The promotion of cooperatives guided by the values and principles set out in Paragraph 3 should be considered as one of the pillars of national and international economic and social development.

(2) Cooperatives should be treated in accordance with national law and practice and on terms no less favourable than those accorded to other forms of enterprise and social organization. Governments should introduce support measures, where appropriate, for the activities of cooperatives that meet specific social and public policy outcomes, such as employment promotion or the development of activities benefiting disadvantaged groups or regions. Such measures could include, among others and in so far as possible, tax benefits, loans, grants, access to public works programmes, and special procurement provisions.

(3) Special consideration should be given to increasing women's participation in the cooperative movement at all levels, particularly at management and leadership levels.

8. (1) National policies should notably:

(a) promote the ILO fundamental labour standards and the ILO Declaration on Fundamental Principles and Rights at Work, for all workers in cooperatives without distinction whatsoever;

(b) ensure that cooperatives are not set up for, or used for, non-compliance with labour law or used to establish disguised employment relationships, and combat pseudo cooperatives violating workers' rights, by ensuring that labour legislation is applied in all enterprises;

(c) promote gender equality in cooperatives and in their work;

(d) promote measures to ensure that best labour practices are followed in cooperatives, including access to relevant information;

(e) develop the technical and vocational skills, entrepreneurial and managerial abilities, knowledge of business potential, and general economic and social policy skills, of members,



workers and managers, and improve their access to information and communication technologies;

(f) promote education and training in cooperative principles and practices, at all appropriate levels of the national education and training systems, and in the wider society;

(g) promote the adoption of measures that provide for safety and health in the workplace;

(h) provide for training and other forms of assistance to improve the level of productivity and competitiveness of cooperatives and the quality of goods and services they produce;

(i) facilitate access of cooperatives to credit;

(j) facilitate access of cooperatives to markets;

(k) promote the dissemination of information on cooperatives; and

(l) seek to improve national statistics on cooperatives with a view to the formulation and implementation of development policies.

(2) Such policies should:

(a) decentralize to the regional and local levels, where appropriate, the formulation and implementation of policies and regulations regarding cooperatives;

(b) define legal obligations of cooperatives in areas such as registration, financial and social audits, and the obtaining of licences; and

(c) promote best practice on corporate governance in cooperatives.

9. Governments should promote the important role of cooperatives in transforming what are often marginal survival activities (sometimes referred to as the "informal economy") into legally protected work, fully integrated into mainstream economic life.

### III. IMPLEMENTATION OF PUBLIC POLICIES FOR THE PROMOTION OF COOPERATIVES

10. (1) Member States should adopt specific legislation and regulations on cooperatives, which are guided by the cooperative values and principles set out in Paragraph 3, and revise such legislation and regulations when appropriate.

(2) Governments should consult cooperative organizations, as well as the employers' and workers' organizations concerned, in the formulation and revision of legislation, policies and regulations applicable to cooperatives.

11. (1) Governments should facilitate access of cooperatives to support services in order to strengthen them, their business viability and their capacity to create employment and income.

(2) These services should include, wherever possible:

(a) human resource development programmes;

(b) research and management consultancy services;

(c) access to finance and investment;

(d) accountancy and audit services;

(e) management information services;

(f) information and public relations services;

(g) consultancy services on technology and innovation;

(h) legal and taxation services;

(i) support services for marketing; and

(j) other support services where appropriate.

(3) Governments should facilitate the establishment of these support services. Cooperatives and their organizations should be encouraged to participate in the organization and management of these services and, wherever feasible and appropriate, to finance them.

(4) Governments should recognize the role of cooperatives and their organizations by developing appropriate instruments aimed at creating and strengthening cooperatives at national and local levels.

12. Governments should, where appropriate, adopt measures to facilitate the access of cooperatives to investment finance and credit. Such measures should notably:

(a) allow loans and other financial facilities to be offered;

(b) simplify administrative procedures, remedy any inadequate level of cooperative assets, and reduce the cost of loan transactions;

(c) facilitate an autonomous system of finance for cooperatives, including savings and credit, banking and insurance cooperatives; and

(d) include special provisions for disadvantaged groups.

13. For the promotion of the cooperative movement, governments should encourage conditions favouring the development of technical, commercial and financial linkages among all forms of cooperatives so as to facilitate an exchange of experience and the sharing of risks and benefits.

#### IV. ROLE OF EMPLOYERS' AND WORKERS' ORGANIZATIONS AND COOPERATIVE ORGANIZATIONS, AND RELATIONSHIPS BETWEEN THEM

14. Employers' and workers' organizations, recognizing the significance of cooperatives for the attainment of sustainable development goals, should seek, together with cooperative organizations, ways and means of cooperative promotion.

15. Employers' organizations should consider, where appropriate, the extension of membership to cooperatives wishing to join them and provide appropriate support services on the same terms and conditions applying to other members.

16. Workers' organizations should be encouraged to:

(a) advise and assist workers in cooperatives to join workers' organizations;

(b) assist their members to establish cooperatives, including with the aim of facilitating access to basic goods and services;

(c) participate in committees and working groups at the local, national and international levels that consider economic and social issues having an impact on cooperatives;

(d) assist and participate in the setting up of new cooperatives with a view to the creation or maintenance of employment, including in cases of proposed closures of enterprises;

(e) assist and participate in programmes for cooperatives aimed at improving their productivity;

(f) promote equality of opportunity in cooperatives;

(g) promote the exercise of the rights of worker-members of cooperatives; and

(h) undertake any other activities for the promotion of cooperatives, including education and training.

17. Cooperatives and organizations representing them should be encouraged to:

(a) establish an active relationship with employers' and workers' organizations and concerned governmental and non-governmental agencies with a view to creating a favourable climate for the development of cooperatives;

(b) manage their own support services and contribute to their financing;

(c) provide commercial and financial services to affiliated cooperatives;

(d) invest in, and further, human resource development of their members, workers and managers;

(e) further the development of and affiliation with national and international cooperative organizations;

(f) represent the national cooperative movement at the international level; and

(g) undertake any other activities for the promotion of cooperatives.

## V. INTERNATIONAL COOPERATION

18. International cooperation should be facilitated through:

(a) exchanging information on policies and programmes that have proved to be effective in employment creation and income generation for members of cooperatives;

(b) encouraging and promoting relationships between national and international bodies and institutions involved in the development of cooperatives in order to permit:

(i) the exchange of personnel and ideas, of educational and training materials, methodologies and reference materials;

(ii) the compilation and utilization of research material and other data on cooperatives and their development;

(iii) the establishment of alliances and international partnerships between cooperatives;

(iv) the promotion and protection of cooperative values and principles; and

(v) the establishment of commercial relations between cooperatives;

(c) access of cooperatives to national and international data, such as market information, legislation, training methods and techniques, technology and product standards; and

(d) developing, where it is warranted and possible, and in consultation with cooperatives, employers' and workers' organizations concerned, common regional and international guidelines and legislation to support cooperatives.

## VI. FINAL PROVISION

19. The present Recommendation revises and replaces the Co-operatives (Developing Countries) Recommendation, 1966.

## ANNEX

### EXTRACT FROM THE STATEMENT ON THE COOPERATIVE IDENTITY, ADOPTED BY THE GENERAL ASSEMBLY OF THE INTERNATIONAL CO-OPERATIVE ALLIANCE IN 1995

The cooperative principles are guidelines by which cooperatives put their values into practice.

#### Voluntary and open membership

Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

## Democratic member control

Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (one member, one vote) and cooperatives at other levels are also organized in a democratic manner.

## Member economic participation

Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative.

Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

## Autonomy and independence

Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

## Education, training and information

Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their



cooperatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of cooperation.

#### Cooperation among cooperatives

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

#### Concern for community

Cooperatives work for the sustainable development of their communities through policies approved by their members.